

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE TO ADJUST RATES BY)	
ELAM UTILITY COMPANY, INC.,)	CASE NO. 8178
MORGAN COUNTY, KENTUCKY)	

O R D E R

On March 26, 1981, Elam Utility Company, Inc., ("Applicant") a natural gas distribution utility serving approximately 429 customers in West Liberty and adjacent areas in Morgan County, Kentucky, filed a notice with the Commission requesting an increase in rates for natural gas service to be effective on and after May 1, 1981. The proposed rates would produce additional revenues of \$43,934, an increase of approximately 15.5%. Applicant stated that the requested increase was necessary to meet increases in various costs and the loss of revenue due to a decline in sales.

To determine the reasonableness of the proposed rates, the Commission, in an Order dated March 27, 1981, suspended the requested increase in rates for a period of five months on and after the effective date. Further, in an Order dated April 21, 1981, the Commission set a public hearing to be held June 15, 1981, at its offices

in Frankfort, Kentucky. Notice of such hearing was provided by Applicant pursuant to the Kentucky Revised Statutes and the Commission's regulations. The hearing was held as scheduled with two intervenors, the Consumer Protection Division of the Attorney General's Office and the United States Shoe Corporation, being present.

During the hearing, Applicant reiterated its request for a waiver of the requirement to refund amounts received from its supplier as refunds. In its Order in Case No. 7601-D, dated April 29, 1981, the Commission had deferred this matter for further study. Further, Applicant submitted additional information relative to the refunds as prepared by its independent accountant. In addition, Applicant requested that approval be granted for its proposed accounting treatment of extraordinary property losses from the early retirement of plant in service due to the renovation of its distribution system.

Applicant has responded to all requests for additional information and the record in this matter is now considered to be fully submitted for final determination by this Commission.

TEST PERIOD

The Commission, for the purpose of testing the reasonableness of the proposed rates, has adopted the 12

months ended December 31, 1981, as the test period. Adjustments, when proper and reasonable, have been included to more clearly reflect current operating conditions.

VALUATION METHODS

In Exhibit 3 of its notice, Applicant proposed a net investment rate base of \$520,877 at December 31, 1980. The Commission agrees with Applicant's proposed rate base with the exception of the inclusion of the extraordinary property losses and the amount for cash working capital allowance. The Commission is of the opinion that the extraordinary property losses should be disallowed as these items of plant are no longer in service. In accordance with past policy, the cash working capital allowance has been calculated as one-eighth of the adjusted operation and maintenance expenses less the cost of purchased natural gas. The Commission has, therefore, determined Applicant's rate base to be \$466,238 at December 31, 1980, as set out below:

Utility Plant in Service	\$486,326
Materials and Supplies	6,000
Cash Working Capital Allowances	<u>10,093</u>
Subtotal	\$502,419
Less:	
Accumulated Depreciation Reserve	<u>36,181</u>
Net Investment Rate Base	<u><u>\$466,238</u></u>

Although no other methods of valuation have been included herein, the Commission has given due consideration to all elements of value in order to determine the reasonableness in this matter.

REVENUES AND EXPENSES

Applicant proposed several adjustments to its income statement to more clearly reflect current operating conditions. These adjustments to revenues and expenses are detailed in the evidence of record, and the Commission finds these adjustments to be proper for rate-making purposes with the following exceptions:

(1) Applicant's adjustment for temperature variance to its purchased gas expense has been reduced \$23 to reflect the methodology used by the Commission.^{1/}

(2) The Commission determined miscellaneous interest expense to be \$940, which is a reduction of \$715 from the level proposed by Applicant. This amount was determined as follows:

	<u>Balance at 12/31/80</u>	<u>Interest Rate</u>	<u>Interest Expense</u>
Customer Deposits	\$ 9,145	6.00%	\$ 549
Truck Loan	<u>3,048</u>	12.83%	<u>391</u>
	\$12,193		\$ 940

^{1/} (3296 Mcf ÷ .95) x \$2.642/Mcf = \$9,166 - \$9,143 = \$23.

(3) Further, the Commission has made adjustments to Applicant's income statement to reflect purchased gas adjustments approved subsequent to the test period.^{2/}

Therefore, test period operations have been adjusted as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$254,219	\$66,780	\$320,999
Operating Expenses	<u>297,720</u>	<u>14,701</u>	<u>312,421</u>
Operating Income	<u>\$(43,501)</u>	<u>\$52,079</u>	<u>\$ 8,578</u>

RATE OF RETURN

The adjusted operating income of \$8,578 provides a rate of return on Applicant's net investment rate base of approximately 1.8% and is clearly unfair, unjust and unreasonable. The Commission is of the opinion that a fair, just and reasonable rate of return on Applicant's rate base is 10.1%. Therefore, the Commission finds that test period operations result in an operating income deficiency of \$38,454. This deficiency adjusted for income taxes of \$3,009 will result in an additional revenue requirement of approximately \$41,463.

^{2/} Case Nos. 7601-D and 7601-E.

RATE DESIGN

The Applicant proposed no changes in its rate design. The United States Shoe Corporation requested that it be given an industrial rate, as the single rate structure of the Applicant did not give consideration to industrial accounts. The Applicant made no objection to an industrial rate class and the Commission is of the opinion that it is proper and in the best interest of the public in the community served by Applicant.

REFUNDS-CASE NO. 7601-D

The Applicant has received refunds from Columbia Gas Transmission Corporation during the period April 1980 through April 1981 in the following amounts:

April 1980	\$ 1,528.60
September 1980	4,056.10
October 1980	4,537.98
February 1981	1,521.03
April 1981	<u>425.25</u>
Total Refunds Received	\$12,068.96

Less:

September 1980 Refund		
Case 7601-C	\$4,056.10	
Prior Case Over Refund	970.30	<u>5,026.40</u>
Net Refunds to be Considered		<u>\$ 7,042.56</u>

In Case 7601-C, the Applicant requested, and the Commission granted, permission to retain the refund of \$4,056.10, because of its financial instability. The Applicant over-refunded \$970.30 to its customers following a prior refund Order, per the audit of Mr. H. Workman, CPA, Richmond, Kentucky.

In addition to the refunds in Case 7601-D, the Commission must consider overcharges and undercharges by the Applicant during this period. In accordance with the Commission's Order at the hearing, the Applicant's accountant, Mr. H. Workman, filed on July 8, 1981, a statement of overcharges and undercharges, whereby the Applicant had overcharged its customers a net amount of \$2,897.47. These overcharges are attributed to the Applicant's failure to file purchased gas adjustments for reduction of retail rates when its wholesale supplier decreased its rates. The net refunds of \$7,042.56 and the net overcharges of \$2,897.47 result in a total refund amount of \$9,940.03 to be considered by the Commission.

The Commission is disturbed by Applicant's failure to request a timely reduction of rates, whether intentional or not, as it is in direct violation of the Commission's regulations and the Applicant's approved Purchase Gas Adjustment Clause. The Commission, therefore, admonishes the Applicant for its past practice and serves notice that if this practice is repeated in the future, the Commission may

be forced to invoke applicable penalties to insure no further violation of its regulations and the Applicant's approved Purchased Gas Adjustment Clause, which have been established to protect the ratepayers as well as the utility.

SUMMARY

The Commission, after reviewing all the evidence of record and being advised, is of the opinion and finds that:

(1) The proposed accounting treatment for net retirement of \$54,200 to Account 182, Extraordinary Property Losses, is in accordance with the Uniform System of Accounts prescribed for Natural Gas Companies adopted by this Commission.

(2) The proposed amortization of the extraordinary property losses over a period of 12 years will allow the stockholders of the Applicant the opportunity to recover their investment and it should be approved.

(3) The rates proposed by Applicant, adjusted for purchased gas adjustments in Case Nos. 7601-D and 7601-E, and set out in Appendix A, are fair, just and reasonable in that they will produce gross revenues of \$362,462 based on normal test period conditions.

(4) A rate of return of 10.1% on the accepted net investment rate base is fair, just and reasonable in that it should permit Applicant to pay its operating expenses,

service its debt and provide a reasonable surplus for equity growth.

(5) Applicant's request for a waiver of refunds of purchased gas refunds and customer overcharges due to financial instability should be denied in that Applicant's financial condition should be improved by the rates found reasonable herein.

IT IS THEREFORE ORDERED that the accounting treatment for net retirement of \$54,200 to Account 182, Extraordinary Property Losses, and its amortization over a period of 12 years be and are hereby approved.

IT IS FURTHER ORDERED that the rates set out in Appendix A be and are hereby approved as the fair, just and reasonable rates for service rendered by Applicant on and after the date of this Order.

IT IS FURTHER ORDERED that Applicant's request for a waiver of refunds of purchased gas refunds and customer overcharges be and is hereby denied.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission within 30 days from the date of this Order its plan to refund to its customers the amount of \$9,940.03 within a time period not to exceed 8 months.

IT IS FURTHER ORDERED that for the purpose of the future application of the Purchased Gas Adjustment Clause of the Applicant, the base rate for purchased gas shall be:

Columbia Gas Transmission Corporation
Schedule SGS

Commodity

\$3.6217 per Mcf

IT IS FURTHER ORDERED that Applicant shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 21st day of September, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Katherine Randall
Vice Chairman

Demetrius Carnegie
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8178 DATED September 21, 1981

The following rates are prescribed for the customers in the area served by Elam Utility Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

RESIDENTIAL

RATES: Monthly

Customer Charge	\$4.00
First 11 Mcf	\$6.10
Over 11 Mcf	7.10

INDUSTRIAL

RATES: Monthly

Customer Charge	\$5.00
All Mcf	\$6.10

Purchased Gas Adjustment Clause

<u>Supplier</u>	<u>Rate</u>
Columbia Gas Transmission Corporation	\$3.6217 per Mcf